

24 August 2017

Events Round-Up

NZ: Pre-election economic and fiscal update
GE: Markit manufacturing PMI, Aug P: 59.4 vs. 57.6 exp.
GE: Markit services PMI, Aug: 53.4 vs. 53.3 exp.
EC: Markit manufacturing PMI, Aug: 57.4 vs. 56.3 exp.
EC: Markit services PMI, Aug: 54.9 vs. 55.4 exp.
US: Markit manufacturing PMI, Aug: 52.5 vs. 53.5 exp.
US: Markit services PMI, Aug: 56.9 vs. 54.9 exp.
US: New home sales ('000), Jul: 571 vs. 610 exp.
EC: Consumer confidence, Aug: -1.5 vs. -1.8 exp.

Good Morning

In what is now a common occurrence, Trump opens his mouth and causes risk sentiment to deteriorate – equities fall, the VIX rises, UST yields fall and the USD weakens.

Yesterday we reported on the USD recovery, supported by increased hope that US tax reform talks had made some progress, but that good news vibe has been shot down by Trump opening his mouth again. Trump threatened to bring the US government to the brink of a shutdown, if needed, to pressure Congress into funding the US-Mexico border wall. These comments complicate the job of Congress to raise the debt ceiling, something that is high on the list of market concerns. Fitch Ratings didn't help sentiment, commenting that while a government shutdown would not have a direct impact on the US's AAA rating, failure to raise the debt ceiling in "a timely manner" prior to the drop-dead date would force the agency to review the sovereign rating.

Trump added to market concerns when raised some doubt that a NAFTA deal could be renegotiated successfully. "Personally, I don't think we can make a deal....so I think we'll end up probably terminating NAFTA at some point", he added.

The USD is down about 0.4% on the DXY and 0.2% on the TWI-majors index, the latter moderated by underperformance of the CAD and Mexican peso on those NAFTA comments. Soft US new home sales data didn't help sentiment for the USD.

EUR is up 0.4% to 1.1810, with a good set of PMI data helping, while Draghi's speech in Germany didn't show any push-back on EUR strength. He seemed to

deliberately avoid and any specific signals on the ECB's current policy outlook.

The NZD has underperformed, falling 0.7% against the soft USD and is down on all the crosses. The beginning of the fall seemed to coincide with the release of the government's economic and fiscal update, but we don't believe that was of particular concern to the market. The release coincided with the Tokyo open where we saw selling pressure for both the NZD and AUD. We can't remember the last time an NZ fiscal report caused a market reaction. To be sure, the projected surpluses were slightly lower than expected as Treasury moderated its growth outlook, but they were still a strong set of fiscal accounts. The NZ taxpayer can be grateful that Treasury revised down its growth outlook, which should help moderate any pre-election bids to spend those growing surpluses.

As we've previously noted, net speculative positioning has been extremely long the NZD, which hasn't made much sense to us, over a period of where NZ commodity prices have been softening a little, risk sentiment was vulnerable to fall, the RBNZ was never going to offer any support at its MPS and with political risk increasing around an uncertain election outcome. So the inevitable correction in positioning continues, sending the NZD south.

Most of the damage was done during NZ trading hours, with the currency only down slightly since the local close, now 0.7225 after briefly dipping below 0.72 earlier this morning. NZD/AUD is down to 0.9140, a fresh 5-month low, while the fall in NZD/EUR to 0.6115 takes that cross to its lowest level in 14 months. GBP has underperformed, which sees EUR/GBP up to its highest level in almost eight years at 0.9230, ignoring the intra-day flash-crash last October. Still, NZD/GBP is down 0.5% to 0.5640.

The risk off session instigated by Trump sees US Treasury rates down across the curve, with these dragging down European rates as well. The 10-year rate is down 4bps to 2.17%, with technicians eyeing up the year's intraday low of 2.10% set in mid-June.

NZ's swap curve barely changed (again) yesterday, with movements of 1bps or less. Government rates nudged up, with the 10-year rate up 3bps to 2.91%. There was no change to the bond tender programme stemming from the government's fiscal update. Confirmation of today's tender of 2033 bonds reduces the chance of the DMO

announcing the syndication of a new 2029 issue this week. The window of opportunity to do this deal ahead of the election is closing by the day.

If Trump stays quiet then trading over the next 24 hours should be uneventful, with more scope for volatility when the Yellen and Draghi speak at Jackson Hole on Friday night/Saturday morning.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Jul	-200	242	10:45
NZ	NZ plans to sell \$150m 2033 bonds				14:05
UK	GDP (q/q%)	Q2	0.3	0.3	20:30
US	Existing home sales (mn)	Jul	5.55	5.52	02:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**		
Indicative overnight ranges (*)				Other FX			Major Indices				Price		
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day	
NZD	0.7227	-0.7	0.7198	0.7243	CHF	0.9648	-0.3			Oil (Brent)	52.57	+1.3	
AUD	0.7905	-0.1	0.7882	0.7913	SEK	8.061	-0.4			Oil (WTI)	48.40	+1.2	
EUR	1.1818	+0.5	1.1740	1.1820	NOK	7.863	-0.6			Gold	1289.0	+0.3	
GBP	1.2804	-0.2	1.2780	1.2834	HKD	7.826	-0.0			HRC steel	621.0	+0.0	
JPY	109.02	-0.5	108.97	109.57	CNY	6.659	-0.1			CRB	177.6	+0.5	
CAD	1.2545	-0.2			SGD	1.360	-0.1			Wheat Chic.	430.0	+0.3	
NZD/AUD	0.9142	-0.6			IDR	13,359	+0.1			Sugar	13.67	+1.2	
NZD/EUR	0.6115	-1.2			THB	33.35	+0.3			Cotton	69.60	+0.9	
NZD/GBP	0.5644	-0.6			KRW	1,132	-0.2			Coffee	128.7	-0.3	
NZD/JPY	78.79	-1.2			TWD	30.28	-0.0			WM powder	3240.0	+0.0	
NZ TWI	76.24	-0.8			PHP	51.21	-0.0			Australian Futures			
										3 year bond	98.01	0.01	
										10 year bond	97.35	0.02	
Interest Rates							NZ Government Bonds				NZ Swap Yields		
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day				Last		
USD	1.25	1.32	1.56	2.11	USD	2.17	-0.04	NZGB 3 04/15/20	2.06	0.00	1 year	2.02	0.01
AUD	1.50	1.71	1.92	2.81	AUD	2.67	0.03	NZGB 6 05/15/21	2.20	0.02	2 year	2.18	0.00
NZD	1.75	1.95	2.18	3.16	NZD	2.91	0.03	NZGB 5 1/2 04/15/23	2.50	0.02	5 year	2.66	0.01
EUR	0.00	0.06	-0.18	0.80	GER	0.38	-0.02	NZGB 2 3/4 04/15/25	2.76	0.03	7 year	2.91	0.01
GBP	0.25	0.28	0.56	1.15	GBP	1.06	-0.03	NZGB 4 1/2 04/15/27	2.91	0.03	10 year	3.16	0.01
JPY	-0.05	-0.03	0.02	0.22	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.29	0.03	15 year	3.43	0.01
CAD	0.75	1.17	1.58	2.13	CAD	1.88	-0.04	NZGB 2 3/4 04/15/37	3.53	0.04			

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

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